

**PATON-CHURDAN
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2008 Election)

Steve Burrell	President	2008
Jason Stauffer	Vice President	2009
Troy Paup		2008
David Dumdei		2009
Greg Carey		2009

(After September 2008 Election)

Steve Burrell	President	2011
Greg Carey	Vice President	2009
Troy Paup		2011
David Dumdei		2009
Jason Stauffer		2009

School Officials

Jess Toliver	Superintendent
Jina Brincks	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

To the Board of Education of
Paton-Churdan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Paton-Churdan Community School District, Churdan, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund of Paton-Churdan Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2010 on our consideration of Paton-Churdan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

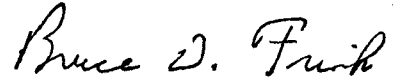
Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Paton-Churdan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRUCE D. FRINK
Certified Public Accountant

March 9, 2010

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Paton-Churdan Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,074,917 in fiscal 2008 to \$2,080,503 in fiscal 2009, while General Fund expenditures increased from \$1,927,581 in fiscal 2008 to \$1,984,225 in fiscal 2009.
- General Fund revenues increased 1% during the year ending June 30, 2009. The increase in expenditures was due primarily to normal annual payroll increases. Current allowable growth levels are inadequate for continued growth in the General Fund. This was compounded by a midyear state aid reduction.
- The District collected over \$118,000 in statewide sales and services tax revenues. This was used for expenditures previously paid with Physical Plant and Equipment property tax levies as well as infrastructure costs and debt repayment.
- The General Fund increased over \$96,000 from savings due to sharing programs and careful monitoring of discretionary spending.
- The District completed a geothermal heating/cooling project. This should save the District significant dollars in heating and cooling costs.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Paton-Churdan Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Paton-Churdan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Paton-Churdan Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the Student Activity Fund.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Paton-Churdan Community School District Annual Financial Report

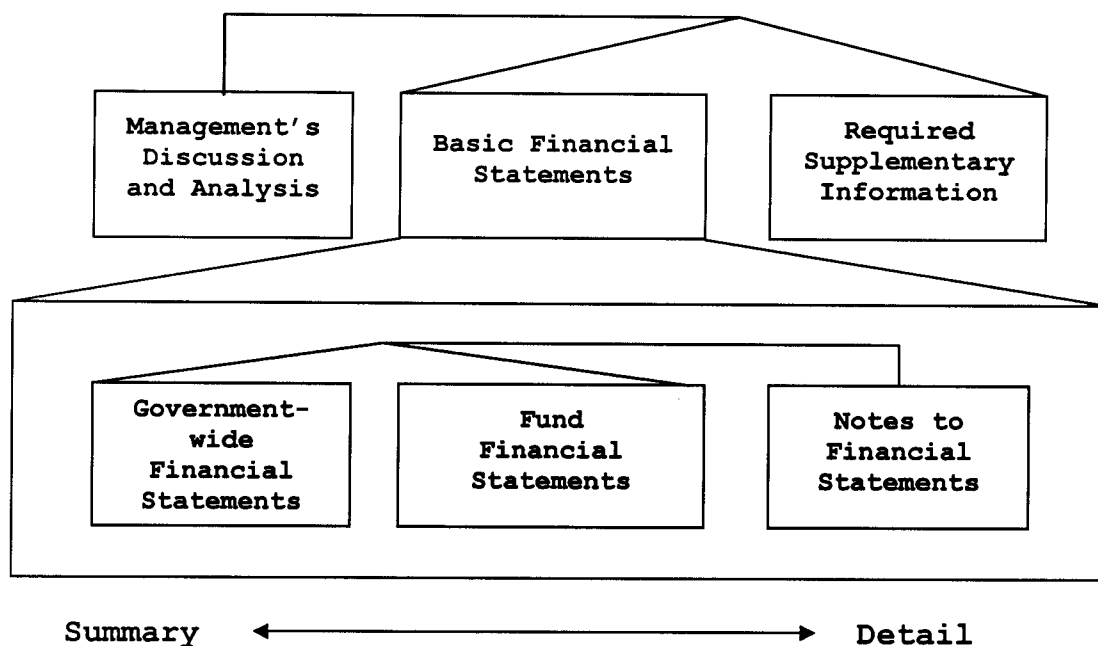


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activity the District operates similar to private businesses: food services
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in fund net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long- term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has elected to treat all funds as "major" for clarity of presentation.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3 Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-2009
Current assets	\$ 1,939	21,752	26	23	1,965	21,775	-90.98%
Capital assets	<u>1,583</u>	<u>659</u>	<u>5</u>	<u>7</u>	<u>1,588</u>	<u>666</u>	<u>138.44%</u>
Total assets	<u>3,522</u>	<u>22,411</u>	<u>31</u>	<u>30</u>	<u>3,553</u>	<u>22,441</u>	<u>-84.17%</u>
Current liabilities	1,162	1,098	2	-	1,164	1,098	6.01%
Non-current liabilities	<u>1,055</u>	<u>1,095</u>	<u>-</u>	<u>-</u>	<u>1,055</u>	<u>1,095</u>	<u>-3.65%</u>
Total liabilities	<u>2,217</u>	<u>2,193</u>	<u>2</u>	<u>-</u>	<u>2,219</u>	<u>2,193</u>	<u>1.19%</u>
Net Assets							
Invested in capital assets, net of related debt	528	184	5	7	533	191	179.06%
Restricted	66	528	-	-	66	528	-87.50%
Unrestricted	<u>711</u>	<u>506</u>	<u>24</u>	<u>23</u>	<u>735</u>	<u>529</u>	<u>38.94%</u>
Total net assets	<u>\$ 1,305</u>	<u>1,218</u>	<u>29</u>	<u>30</u>	<u>1,334</u>	<u>1,248</u>	<u>6.89%</u>

Total net assets increased almost 7% in fiscal year 2009. The primary factor was a \$96,000 increase in the General Fund. The General Fund continues to grow due to cost savings from sharing classes with Jefferson-Scranton Community School District as well as continued monitoring of discretionary spending. The District is using statewide sales and services taxes to ease the property tax burden of the PPEL levy as well as for infrastructure projects.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4							
Changes in Net Assets							
(Expressed in Thousands)							
Governmental Activities		Business type Activities		Total School District		Total Change	
2009	2008	2009	2008	2009	2008	2008-2009	
Revenues:							
Program revenues:							
Charges for service and sales	\$ 90	89	25	27	115	116	-0.86%
Operating grants, contributions and restricted interest	352	355	35	38	387	393	-1.53%
General revenues:							
Property tax	925	832	-	-	925	832	11.18%
Income surtax	107	78	-	-	107	78	37.18%
Local option sales tax	118	127	-	-	118	127	-7.09%
Unrestricted state grants	698	809	-	-	698	809	-13.72%
Unrestricted investment earnings	7	16	-	-	7	16	-56.25%
Other	82	7	-	-	82	7	1071.43%
Total revenues	2,379	2,313	60	65	2,439	2,378	2.57%
Program expenses:							
Governmental activities:							
Instruction	1,417	1,356	-	-	1,417	1,356	4.50%
Support Services	668	599	-	-	668	599	11.52%
Non-instructional programs	-	-	61	60	61	60	1.67%
Other expenses	207	133	-	-	207	133	55.64%
Total expenses	2,292	2,088	61	60	2,353	2,148	9.54%
Change in net assets	\$ 87	225	(1)	5	86	230	-62.61%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,379,441 and expenses were \$2,292,522 for the year ending June 30, 2009.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses, for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-5						
Total and Net Cost of Governmental Activities						
(Expressed in Thousands)						
Total Cost of Services			Net Cost of Services			
		Change			Change	
	2009	2008	2008-2009	2009	2008	2008-2009
Instruction	\$ 1,417	1,356	4.50%	1,052	994	5.84%
Support Services	668	599	11.52%	667	596	11.91%
Other expenses	207	133	55.64%	132	54	144.44%
Totals	<u>\$ 2,292</u>	<u>2,088</u>	<u>9.77%</u>	<u>1,851</u>	<u>1,644</u>	<u>12.59%</u>

For the year ending June 30, 2009:

- The cost financed by users of the District's programs was \$89,937.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$225,894.
- The net cost of governmental activities was financed with \$924,709 in property tax and \$698,457 in state foundation aid.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2009 were \$60,046 and expenses totaled \$61,357. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Paton-Churdan Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$719,577, a 55 percent decrease from last year's ending fund balances of \$1,604,323. The primary reason was the Capital Project and PPEL funds using unspent funds from the prior year to complete the construction project.

Governmental Fund Highlights

- The District maintained its General Fund balance by continuing a program whereby Paton-Churdan high school students attend Jefferson-Scranton Community School District for a portion of each day.
- With the available PPEL and Capital Projects dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities. A project to install geothermal heating and cooling was completed.

Proprietary Fund Highlights

The Nutrition Fund balance stayed steady due to cost containment measures.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 31 and 32.

Legal Budgetary Highlights

The District's receipts were \$46,566 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated due to a mid year reduction.

Total expenditures were less than budgeted. This was due in part to ongoing cost containment measures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested over \$1.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 23% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$80,185.

Figure A-6
Capital Assets, net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2009	2008	June 30, 2009	2008	June 30, 2009	2008	2008-2009
Land	\$ 5	5	-	-	5	5	0.00%
Buildings	1,503	286	-	-	1,503	286	425.52%
Furniture and equipment	75	95	5	7	80	102	-21.57%
Construction in progress	-	273	-	-	-	273	100.00%
Totals	<u>\$ 1,583</u>	<u>659</u>	<u>5</u>	<u>7</u>	<u>1,588</u>	<u>666</u>	<u>138.44%</u>

Long-Term Debt

During fiscal year 2008, the District issued \$620,000 of revenue bonds and \$475,000 of capital loan notes for the installation of geothermal heating and cooling as well as some remodeling. The revenue bonds will be repaid with proceeds of the one cent sales tax. The capital loan notes will be repaid from the Physical Plant and Equipment levy approved by the voters of the District. \$40,000 of capital loan notes were paid during the year. The first payment on the revenue bonds was paid on July 1, 2009.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The sharing of programs and related cost savings along with allowable growth set by the state legislature will have a major effect on the District.
- Allowable growth of 4% or less is inadequate to maintain all of the District's educational programs at their current level. State aid cuts, particularly in midyear are causing the District to constantly evaluate its financial position.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jina Brincks, District Secretary, Paton-Churdan Community School District, 606 Adrian Street, Churdan, Iowa 50050.

Basic Financial Statements

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type <u>Activities</u> School Nutrition	Total
Assets			
Cash and pooled investments	\$ 846,876	25,915	872,791
Receivables:			
Property tax:			
Current year	13,863	-	13,863
Succeeding year	955,771	-	955,771
Income surtax - succeeding year	75,334	-	75,334
Due from other governments	47,515	-	47,515
Inventories	-	311	311
Capital assets, net of accumulated depreciation	1,582,727	4,667	1,587,394
Total assets	<u>3,522,086</u>	<u>30,893</u>	<u>3,552,979</u>
Liabilities			
Accounts payable	81,718	-	81,718
Accrued payroll and benefits	84,018	1,945	85,963
Accrued interest payable	17,920	-	17,920
Deferred revenue:			
Succeeding year property tax	955,771	-	955,771
Federal programs	22,941	-	22,941
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	40,000	-	40,000
Revenue bonds	35,000	-	35,000
Portion due after one year:			
Capital loan notes	395,000	-	395,000
Revenue bonds	585,000	-	585,000
Total liabilities	<u>2,217,368</u>	<u>1,945</u>	<u>2,219,313</u>
Net assets			
Invested in capital assets, net of related debt	527,727	4,667	532,394
Restricted for:			
Capital projects	24,038	-	24,038
Management levy	35,063	-	35,063
Physical plant and equipment levy	6,802	-	6,802
Unrestricted	711,088	24,281	735,369
Total net assets	<u>\$ 1,304,718</u>	<u>28,948</u>	<u>1,333,666</u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:	\$ 1,416,919	89,937	274,868	(1,052,114)	-	(1,052,114)
Support services:						
Student services	9,992	-	-	(9,992)	-	(9,992)
Instructional staff services	25,737	-	-	(25,737)	-	(25,737)
Administration services	300,095	-	-	(300,095)	-	(300,095)
Operation and maintenance of plant services	211,540	-	1,590	(209,950)	-	(209,950)
Transportation services	120,972	-	-	(120,972)	-	(120,972)
	668,336	-	1,590	(666,746)	-	(666,746)
Other expenditures:						
AEA flowthrough	75,406	-	75,406	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-
Interest on debt service	53,777	-	-	(53,777)	-	(53,777)
Depreciation (unallocated)*	78,084	-	-	(78,084)	-	(78,084)
	207,267	-	75,406	(131,861)	-	(131,861)
Total governmental activities	2,292,522	89,937	351,864	(1,850,721)	-	(1,850,721)

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:						
Non-instructional programs:						
Nutrition services	61,357	24,572	35,474	-	(1,311)	(1,311)
Total	\$ 2,353,879	114,509	387,338	(1,850,721)	(1,311)	(1,852,032)
General Revenues:						
Property tax levied for:						
General purposes				\$ 811,754	-	811,754
Management				20,010	-	20,010
Capital outlay				92,945	-	92,945
Income surtax				106,686	-	106,686
Statewide sales and services tax				118,059	-	118,059
Unrestricted state grants				698,457	-	698,457
Unrestricted investment earnings				7,337	-	7,337
Other				82,392	-	82,392
Total general revenues				1,937,640	-	1,937,640
Change in net assets				86,919	(1,311)	85,608
Net assets beginning of year				1,217,799	30,259	1,248,058
Net assets end of year				\$ 1,304,718	28,948	1,333,666

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

Assets

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Total
Cash and pooled investments	\$ 787,610	10,356	34,763	5,409	8,738	846,876
Receivables:						
Property tax:						
Current year	12,170	-	300	1,393	-	13,863
Succeeding year	794,060	-	64,500	97,211	-	955,771
Income surtax - succeeding year	75,334	-	-	-	-	75,334
Due from other governments	17,679	-	-	-	29,836	47,515
Total assets	\$ 1,686,853	10,356	99,563	104,013	38,574	1,939,359

Liabilities and Fund Balance

Liabilities:						
Accounts payable	\$ 67,182	-	-	-	14,536	81,718
Accrued payroll and benefits	84,018	-	-	-	-	84,018
Deferred revenue:						
Succeeding year property tax	794,060	-	64,500	97,211	-	955,771
Succeeding year income surtax	75,334	-	-	-	-	75,334
Federal programs	22,941	-	-	-	-	22,941
Total liabilities	<u>1,043,535</u>	<u>-</u>	<u>64,500</u>	<u>97,211</u>	<u>14,536</u>	<u>1,219,782</u>
Fund balances:						
Reserved for capital projects	-	-	-	-	24,038	24,038
Unreserved	643,318	10,356	35,063	6,802	-	695,539
Total fund balance	<u>643,318</u>	<u>10,356</u>	<u>35,063</u>	<u>6,802</u>	<u>24,038</u>	<u>719,577</u>
Total liabilities and fund balances	\$ 1,686,853	10,356	99,563	104,013	38,574	1,939,359

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2009

Total fund balances of governmental funds (Exhibit C)	\$ 719,577
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Income surtax receivable at June 30, 2009 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	75,334
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,582,727
Accrued interest payable on long-term liabilities is not due and payable in the current period and , therefore, is not reported as a liability in the governmental funds.	(17,920)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	
Capital loan notes	(435,000)
Revenue bonds	<u>(620,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,304,718</u></u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2009

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Revenues:							
Local sources:							
Local tax	\$ 901,106	-	20,010	92,945	118,059	-	1,132,120
Tuition	89,937	-	-	-	-	-	89,937
Other	89,729	49,000	-	138	1,426	-	140,293
State sources	939,288	-	11	15	-	-	939,314
Federal sources	60,443	-	-	-	-	-	60,443
Total revenues	2,080,503	49,000	20,021	93,098	119,485	-	2,362,107
Expenditures:							
Current:							
Instruction	1,358,902	58,017	-	-	-	-	1,416,919
Support services:							
Student services	9,992	-	-	-	-	-	9,992
Instructional staff services	25,737	-	-	-	-	-	25,737
Administration services	273,137	-	26,831	-	127	-	300,095
Operation and maintenance of plant services	120,079	-	-	80,602	30,249	-	230,930
Transportation services	120,972	-	-	-	-	-	120,972
	549,917	-	26,831	80,602	30,376	-	687,726

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2009

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Other expenditures:							
AEA flowthrough	75,406	-	-	-	-	-	75,406
Facilities acquisition and construction	-	-	-	228,551	753,452	-	982,003
Long-term debt:							
Principal	-	-	-	-	-	40,000	40,000
Interest and services	-	-	-	-	-	44,799	44,799
	<u>75,406</u>	<u>-</u>	<u>-</u>	<u>228,551</u>	<u>753,452</u>	<u>84,799</u>	<u>1,142,208</u>
Total expenditures	<u>1,984,225</u>	<u>58,017</u>	<u>26,831</u>	<u>309,153</u>	<u>783,828</u>	<u>84,799</u>	<u>3,246,853</u>
Excess (deficiency) of revenues over (under) expenditures	<u>96,278</u>	<u>(9,017)</u>	<u>(6,810)</u>	<u>(216,055)</u>	<u>(664,343)</u>	<u>(84,799)</u>	<u>(884,746)</u>
Other financing sources (uses):							
Operating transfers in	-	-	-	-	-	70,263	70,263
Operating transfers out	-	-	-	(62,191)	(8,072)	-	(70,263)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(62,191)</u>	<u>(8,072)</u>	<u>70,263</u>	<u>-</u>
Net change in fund balances	<u>96,278</u>	<u>(9,017)</u>	<u>(6,810)</u>	<u>(278,246)</u>	<u>(672,415)</u>	<u>(14,536)</u>	<u>(884,746)</u>
Fund balances beginning of year	<u>547,040</u>	<u>19,373</u>	<u>41,873</u>	<u>285,048</u>	<u>696,453</u>	<u>14,536</u>	<u>1,604,323</u>
Fund balances end of year	<u>\$ 643,318</u>	<u>10,356</u>	<u>35,063</u>	<u>6,802</u>	<u>24,038</u>	<u>-</u>	<u>719,577</u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2009

Net change in fund balances - total governmental funds (Exhibit E) \$ (884,746)

**Amounts reported for governmental activities in the State of
 Activities are different because:**

Income surtaxes not collected for several months after the District's
 fiscal year ends are not considered "available" revenues in the
 governmental funds and are included as deferred revenues. They are,
 however, recorded as revenues in the statement of activities
 This represents the change from FY08 to FY09

17,334

Capital outlays to purchase or build capital assets are reported in
 governmental funds as expenditures. However, those costs are not
 reported in the Statement of Net Activities and are allocated over their
 estimated useful lives as depreciation expense in the Statement of
 Activities. The amounts of capital outlays and depreciation expense
 in the year are as follows:

Capital outlays	\$ 1,001,393	
Depreciation expense	<u>(78,084)</u>	923,309

Repayment of long-term liabilities is an expenditure in the
 governmental funds, but the repayment reduces long-term liabilities
 in the Statement of Net Assets

40,000

Interest on long-term debt in the Statement of Activities differs from
 the amount reported in the governmental funds because interest is
 recorded as an expenditure in the funds when due. In the Statement
 of Activities, interest expense is recognized as the interest accrues,
 regardless of when it is due.

(8,978)

Change in net assets of governmental activities (Exhibit B) \$ 86,919

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2009

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ 24,572
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	23,608
Benefits	1,944
Services	19
Supplies	33,685
Depreciation	2,101
Total operating expenses	<u>61,357</u>
Operating (loss)	<u>(36,785)</u>
Non-operating revenues:	
State sources	795
Federal sources	34,650
Interest income	29
	<u>35,474</u>
Change in net assets	(1,311)
Net assets beginning of year	<u>30,259</u>
Net assets end of year	<u>\$ 28,948</u>

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2009

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 24,572
Cash payments to employees for services	(23,607)
Cash payments to suppliers for goods or services	<u>(29,258)</u>
Net cash (used by) operating activities	<u>(28,293)</u>
Cash flows from non-capital financing activities:	
State grants received	795
Federal grants received	<u>30,475</u>
Net cash provided by non-capital financing activities	<u>31,270</u>
Cash flows from investing activities:	
Interest on investments	<u>29</u>
Net increase in cash and cash equivalents	3,006
Cash and cash equivalents beginning of year	<u>22,909</u>
Cash and cash equivalents end of year	<u><u>\$ 25,915</u></u>
Reconciliation of operating (loss) to net cash by operating activities:	
Operating (loss)	\$ (36,785)
Adjustments to reconcile operating (loss) to net cash provided by (used by) operating activities:	
Depreciation	2,101
Commodities used	4,175
Decrease in inventory	271
Increase in accrued payroll	<u>1,945</u>
	<u><u>\$ (28,293)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received federal commodities valued at \$4,175.

See notes to financial statements.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

Paton-Churdan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Paton and Churdan, Iowa, and agricultural area in Greene County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Paton-Churdan Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Paton-Churdan Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Greene County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to treat all funds as being major funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Management Levy Fund is utilized for the payment of insurance, unemployment and early retirement benefits.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year become effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2008.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2009.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures did not exceed the amended amounts budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2009.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	-	-	5,000
Capital assets being depreciated:				
Buildings	836,567	1,254,612	-	2,091,179
Furniture and Equipment	305,449	19,389	-	324,838
Construction in progress	272,608	-	272,608	-
Total capital assets being depreciated	1,414,624	1,274,001	272,608	2,416,017
Less accumulated depreciation for:				
Buildings	549,720	38,692	-	588,412
Furniture and Equipment	210,486	39,392	-	249,878
Total accumulated depreciation	760,206	78,084	-	838,290
Total capital assets being depreciated, net	654,418	1,195,917	272,608	1,577,727
Governmental activities, capital assets, net	\$ 659,418	1,195,917	272,608	1,582,727
Business type activities:				
Furniture and equipment	\$ 22,239	0	-	22,239
Less accumulated depreciation	15,471	2,101	-	17,572
Business type activities capital assets, net	\$ 6,768	(2,101)	-	4,667
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 78,084
Business Type activities:				
Food service operations				\$ 2,101

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$66,338, \$61,225, and \$44,646 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$75,406 for year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Revenue Bonds	Capitla Loan Notes	Total
Balance beginning of year	\$620,000	475,000	1,095,000
Additions	-	-	-
Reductions	-	40,000	40,000
Balance end of year	<u>\$620,000</u>	<u>435,000</u>	<u>1,055,000</u>

(7) Revenue Bonds Payable

Details of the District's June 30, 2009 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of September 1, 2007			
	Rates	Interest	Principal	Total
2010	4.88%	\$ 29,402	35,000	64,402
2011	4.88	27,572	40,000	67,572
2012	4.88	25,620	40,000	65,620
2013	4.88	23,546	45,000	68,546
2014	4.88	21,350	45,000	66,350
2015	4.88	19,032	50,000	69,032
2016	4.88	16,836	40,000	56,836
2017	4.88	14,884	40,000	54,884
2018	4.88	12,932	40,000	52,932
2019	4.88	10,858	45,000	55,858
2020	4.88	8,662	45,000	53,662
2021	4.88	6,344	50,000	56,344
2022	4.88	3,904	50,000	53,904
2023	4.88	<u>1,342</u>	<u>55,000</u>	<u>56,342</u>
Total		<u>\$222,284</u>	<u>620,000</u>	<u>842,284</u>

The local option (now statewide) sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option (now statewide) sales and services tax revenue bonds includes the following provisions:

- a) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- b) Any monies remaining in the Revenue Account after the required payments are made may be used for any lawful purpose.

The District has not set aside the required reserve balance as of June 30, 2009.

(8) Capital Loan Notes

In September, 2007 the District issued \$475,000 of Capital Loan Notes to be used for energy management projects throughout the District. Payments will be made from the Physical Plant and Equipment Levy.

Details of the Capital Loan Notes are as follows:

Year Ending June 30,	Capital Loan Notes of September 1, 2007			
	Rates	Interest	Principal	Total
2010	3.50%	\$16,750	40,000	56,750
2011	3.60	15,350	45,000	60,350
2012	3.75	13,730	45,000	58,730
2013	3.75	12,042	45,000	57,042
2014	3.90	10,356	50,000	60,356
2015	3.90	8,405	50,000	58,405
2016	4.00	6,455	50,000	56,455
2017	4.00	4,455	55,000	59,455
2018	4.10	<u>2,255</u>	<u>55,000</u>	<u>57,255</u>
Total		<u>\$89,798</u>	<u>435,000</u>	<u>524,798</u>

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Interfund Transfers

The detail of Interfund transfers for the year ending June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Physical Plant and Equipment Levy	\$62,191
	Capital Projects	<u>8,072</u>
		<u>\$70,263</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Required Supplementary Information

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues:						
Local sources	\$ 1,362,350	24,601	1,386,951	1,315,997	1,315,997	70,954
State sources	939,314	795	940,109	1,016,122	1,016,122	(76,013)
Federal sources	60,443	34,650	95,093	136,600	136,600	(41,507)
Total revenues	<u>2,362,107</u>	<u>60,046</u>	<u>2,422,153</u>	<u>2,468,719</u>	<u>2,468,719</u>	<u>(46,566)</u>
Expenditures/Expenses:						
Instruction	1,416,919	-	1,416,919	1,332,149	1,500,000	83,081
Support services	687,726	-	687,726	1,500,589	1,008,234	320,508
Non-instructional programs	-	61,357	61,357	128,562	80,000	18,643
Other expenditures	1,142,208	-	1,142,208	976,934	1,350,000	207,792
Total expenditures/expenses	<u>3,246,853</u>	<u>61,357</u>	<u>3,308,210</u>	<u>3,938,234</u>	<u>3,938,234</u>	<u>630,024</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(884,746)	(1,311)	(886,057)	(1,469,515)	(1,469,515)	583,458
Other financing sources (uses)	-	-	-	1,020,000	1,020,000	(1,020,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	(884,746)	(1,311)	(886,057)	(449,515)	(449,515)	(436,542)
Balance beginning of year	1,604,323	30,259	1,634,582	739,680	739,680	894,902
Balance end of year	<u>\$ 719,577</u>	<u>28,948</u>	<u>748,525</u>	<u>290,165</u>	<u>290,165</u>	<u>458,360</u>

See accompanying independent auditor's report.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Note to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The budget was amended during April, 2009. No additional expenses were budgeted, however, amounts were shifted between functions.

During the year ended June 30, 2009, expenditures did not exceed the amended amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Athletics	\$ 4,516	15,086	19,611	(9)
Resale	290	70	360	-
Music Resale	(243)	642	307	92
Class of 2012	-	424	-	424
Class of 2011	874	1,808	147	2,535
Class of 2010	1,750	3,073	2,412	2,411
Class of 2009	2,326	2,126	4,304	148
Class of 2008	692	-	-	692
Miscellaneous	743	-	-	743
Speech/Drama	374	-	-	374
Musical	143	638	422	359
Student Council	579	976	1,861	(306)
Annual	(3,304)	581	5,903	(8,626)
Elementary	6,298	12,393	14,240	4,451
Miscellaneous Clearing	-	3,088	3,088	-
Student Pop Machine	2,864	6,700	4,479	5,085
Cheerleaders	523	-	-	523
Other Activities	710	198	-	908
Greene Co. Home to School	-	450	-	450
National Honor Society	238	747	883	102
Total	\$ 19,373	49,000	58,017	10,356

See accompanying independent auditor's report.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Six Years

	Modified Accrual Basis				
	2009	2008	2007	2006	2005
Revenues:					
Local sources:					
Local tax	\$ 1,132,120	1,034,427	1,021,032	1,027,895	960,813
Tuition	89,937	89,424	68,199	78,860	22,043
Other	140,293	84,271	84,650	95,769	131,394
State sources	939,314	1,040,548	993,080	921,121	881,704
Federal sources	60,443	62,001	68,460	131,633	112,346
Total	<u>\$ 2,362,107</u>	<u>2,310,671</u>	<u>2,235,421</u>	<u>2,255,278</u>	<u>2,108,300</u>
					<u>1,033,655</u>
					<u>33,343</u>
					<u>200,580</u>
					<u>691,218</u>
					<u>72,884</u>
					<u>2,031,680</u>
Expenditures:					
Instruction	\$ 1,416,919	1,359,558	1,326,015	1,372,508	1,368,998
Support services:					
Student services	9,992	10,364	9,748	9,717	1,074
Instructional staff	25,737	27,461	33,992	29,576	38,317
Administration	300,095	276,737	246,245	250,404	219,657
Operation and maintenance of plant	230,930	201,977	229,493	279,480	142,543
Transportation	120,972	104,391	160,031	215,464	63,274
Non-instructional programs:					
Food service operations	-	-	-	-	-
Other expenditures:					
Facilities acquisition	982,003	273,110	51,309	-	133,418
Debt service:					
Principal	40,000	5,155	2,579	2,579	2,579
Interest and services	44,799	-	-	-	-
AEA flowthrough	75,406	75,248	72,878	69,832	65,908
Total	<u>\$ 3,246,853</u>	<u>2,334,001</u>	<u>2,132,290</u>	<u>2,229,560</u>	<u>2,035,768</u>
					<u>1,883,226</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of the
Paton-Churdan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Paton-Churdan Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 9, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Paton-Churdan Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Paton-Churdan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Paton-Churdan Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including some deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Paton-Churdan Community School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Paton-Churdan Community School District's financial statements that is more than inconsequential will not be prevented or detected by Paton-Churdan Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Paton-Churdan Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

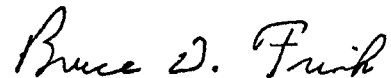
As part of obtaining reasonable assurance about whether Paton-Churdan Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We noted no instances of non-compliance or other matters to be described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Paton-Churdan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Paton-Churdan Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Paton-Churdan Community School District and other parties to whom Paton-Churdan Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Paton-Churdan Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 9, 2010

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES::

I-A-09 Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

I-B-09 **AUDITOR DRAFTING OF THE FINANCIAL STATEMENTS AND RELATED FOOTNOTE DISCLOSURES**

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 112, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - Expenditures for the year ended June 30, 2009, did not exceed the amended budget amounts in any of the four functions.
- II-B-09 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-09 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-09 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- II-G-09 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-H-09 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- II-I-09 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	\$ -
Statewide sales and services tax revenue	118,059
Expenditures/transfers out:	
School infrastructure:	
Building improvements	<u>118,059</u>
Ending balance	\$ <u>-</u>

PATON-CHURDAN COMMUNITY SCHOOL DISTRICT
Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:
(continued)

II-L-09 Revenue Fund - We noted the District had not established the required Reserve Fund in connection with the revenue bonds.

Recommendation - We recommend that the District establish and maintain a reserve fund as required by terms of the issue.

Response - We will establish such a fund.

Conclusion - Response accepted.